

RatingsDirect®

Summary:

Credit River, Minnesota; General Obligation

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Credit Profile

Credit River Twn GO imp bnds

Long Term Rating

AA+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised by two notches to 'AA+' from 'AA-' its long-term rating on Credit River, Minn.'s series 2009A and 2012A general obligation (GO) improvement bonds, based on its local GO criteria released Sept. 12, 2013, and the town's improved financial management practices. The outlook is stable.

The town's unlimited-tax full faith and credit GO pledge secures the bonds.

The rating reflects our view of the following factors for the town:

Very strong economy

In our view Credit River's local economy is very strong, with per capita market value and projected per capita effective buying income at roughly \$156,100 and 177% of the national average respectively. Credit River, is located in Scott County approximately 27 miles south of Minneapolis-St. Paul and serves a population of approximately 5,200. Due to its close proximity to Interstate 35, residents have access to a wide variety of employment opportunities in the greater Twin Cities area (Minneapolis-St. Paul-Bloomington metropolitan statistical area), including in the nearby towns of Prior Lake and Lakeville. We consider the proximity and access a credit strength. The metropolitan area's unemployment rate continues to slip, averaging 4.3% from March-May 2014. Scott County's unemployment rate is even lower at 4.1% for the same period.

Strong management conditions

In our opinion, Credit River's management conditions are strong with "good" practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Changes in the town's financial management practices include solid revenues and expenditure assumptions, which are also reviewed by town's engineer. Long-term planning now includes a five-year forecast with identified revenues and expenditures. Budgetary performance and investment results are reported monthly to the board. The town also have a five-year capital improvement plan with identified sources or revenue and uses. Under its reserve policy, the town aims to maintain a fund balance in the general fund and road and bridge fund of at least 50% of forecasted operating expenditures for the following year. While the town does not have a formal debt management plan, it has adopted post-issuance policies that are verified by the treasurer.

Very strong budgetary flexibility

Credit River's budgetary flexibility is very strong, with available reserves at 301.8% (\$1.5 million) of operating expenditures in fiscal 2013, which includes the general fund, road and bridge fund, and capital improvement fund. To

maintain a steady and proportional levy, management intends to spend down available reserves. Accordingly, for the fiscal 2014, available fund balance is expected to decline to roughly \$1.0 million, or 213% of budgeted expenditures. Available fund balance is expected to remain above 75% well beyond our two-year outlook horizon. On a nominal basis, it is expected to decline until 2019 although not below the \$500,000 negative adjustment threshold.

Very strong liquidity

We believe very strong liquidity supports Credit River's finances, with total government available cash to government fund expenditures and cash to debt service at 175% and 25.9x, respectively. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary. The town's available cash position is expected to remain very strong in the next two fiscal years.

Very weak budgetary performance

Budgetary performance is very weak overall, with a deficit of 19.8% for the general fund and a deficit of 5.2% for the total governmental funds, after adjusting for use of bond proceeds in fiscal 2013. Due to the board's policy decision to spend down reserves and considering current-year and subsequent-year projections, we believe the town's results will remain weak.

Adequate debt and contingent liabilities

In our opinion, Credit River's debt and contingent liability profile is adequate, with net direct debt at 97.2% of total governmental funds revenue and total governmental funds debt service at 6.7% of total governmental funds expenditures for fiscal 2013. All debt is will be retired within the next 10 years, which we consider a credit strength. The town's plans to issue approximately \$1.2 million in debt within the next two years.

All full-time and certain part-time employees of the town of Credit River are covered by defined-benefit plans administered by the Public Employees Retirement Assn. of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and Public Employees Defined Contribution Plan (PEDCP), which are cost-sharing, multi-employer retirement plans. For fiscal 2013, the town made its required contributions of \$3,587 to GERF and \$855 (including employee contributions) to the PEDCP. The total payments to these funds represented less than 1% of total governmental expenditures.

Strong Institutional Framework

We consider the Institutional Framework score for Minnesota townships with populations greater than 2,500 and revenues greater than \$882,000 (indexed to CPI) as strong.

Outlook

The stable outlook reflects our expectation that the town will sustain available reserves above 75% of expenditures or above \$500,000. WE also expect the town's economic metrics to remain very strong given it access to and participation in the broad and diverse Minneapolis-St. Paul-Bloomington MSA. Should the reserves fall below \$500,000, planned or otherwise, or the town's debt and contingent liability profile weakens, we could lower the rating. Although unlikely, given the town's policy decision spend down reserves, should the town's budgetary performance improve, demonstrated by operating surpluses for both general and total governmental funds, we could raise the

rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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